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Sunfire Energy Corporation

December 31, 2002
Annual Report

CORPORATE PROFILE

Sunfire Energy Corporation, headquartered in Calgary, is engaged in the exploration, development and production of natural gas and crude oil.

The Company presently confines its exploration and development activities to Western Canada where it has developed expertise.

The Company's primary objective is to build shareholder value through the discovery, development and acquisition of natural gas and crude oil.

The Company's common shares are listed on The TSX Venture Exchange under the trading symbol **SFE.A**.

HIGHLIGHTS

FINANCIAL

FISCAL YEARS	12 Months Ended Dec 31, 2002	12 Months Ended Dec 31, 2001	Fourth Quarter 2002	Fourth Quarter 2001
	$	$	$	$
Revenue before royalties	10,246,833	11,359,187	3,693,288	1,740,043
Funds from Operations	4,763,357	5,508,119	1,782,878	533,511
Per Share-Basic *	0.37	0.46	0.14	0.04
Net income (Loss)	912,731	1,234,155	502,090	(171,714)
Per Share-Basic *	0.07	0.10	0.04	(0.01)
Net Capital Expenditures	6,902,555	10,548,960	2,644,375	1,908,248
Shareholders' Equity	19,555,223	18,624,991	19,555,223	18,624,991
Number of Common Shares Outstanding at Year End	13,045,273	13,020,273	13,045,273	13,020,273

* Based upon the weighted average number of common shares outstanding during the fiscal periods shown Dec / 02 – 13,044,657; Dec / 01 – 12,073,066; Q4 / 02 – 13,045,273; Q4 / 01 – 12,226,795.

OPERATIONS

FISCAL YEARS	12 Months Ended Dec 31, 2002	12 Months Ended Dec 31, 2001	Fourth Quarter 2002	Fourth Quarter 2001
Production				
Crude Oil / Liquids (Bbls/d)	94	81	105	82
Natural Gas (Mcf/d)	5,792	5,730	6,711	5,183
BOE/D	1,059	1,036	1,224	946
Reserves (MBOE)				
Proven	5,067	4,611		
Established	6,328	5,761		
Present Value of Reserves Proven & 50% Probable (discounted at 12% before taxes)	$55,738,000	$41,860,000		
Non-Producing Land Holdings Net Acres	69,948	61,263		

ABBREVIATIONS

Bbls	Barrels
Bbls/d	Barrels per day
Mbls	Thousand of barrels
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
MMcf	Million cubic feet
Bcf	Billion cubic feet
ARTC	Alberta Royalty Tax Credit
BOE	Barrels of Oil Equivalent (6 Mcf = 1 Bbl)

PRESIDENT'S MESSAGE

Sunfire's financial and operating condition improved significantly throughout 2002. Cash flow during the first 9 months was lower than anticipated due to relatively low commodity prices and restricted production volumes at Blackfoot and Buick Creek. The reduced cash flow resulted in deferring several planned capital projects. The Company's fortunes improved significantly in the fourth quarter when commodity prices and production volumes increased creating a large increase in cash flow.

Highlights of 2002 are as follows:

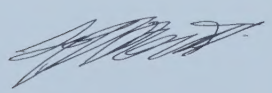
- New gas discovery at Blackfoot which will lead to several low-risk development wells in 2003
- Successfully drilled a horizontal well at Buick Creek which results in several similar potential locations
- Proven and Established reserves increased by 10% over 2002 and the value of reserves increased by 39% and 33% respectively
- Replaced production by 310%
- Attractive finding and development costs of $6.33/BOE (Proven) and $5.16/BOE (Established) and recycle ratios of 1.9 (Proven) and 2.4 (Established)
- Strong financial results in the fourth quarter

Sunfire spent a considerable amount of time throughout 2002 increasing its prospect inventory and is now well positioned to accelerate its exploration and development program. The Company has an inventory of 56 drillable locations, 51 of which are in its four core areas. Sunfire expects production volumes to continue to grow and also anticipates strong gas prices throughout 2003. The combination of higher production rates, strong gas prices and a large number of drillable prospects suggest that the Company has the potential to grow significantly in 2003.

On March 10, 2003, Sunfire announced that a financial advisor has been retained to assist in reviewing various alternatives to enhance shareholder value. A data room opened during the week of March 24th and various alternatives are under consideration. Due to the uncertainty associated with the process, the Annual General Meeting has not been scheduled at this time and will be deferred until the Board of Directors of Sunfire has decided on an appropriate course of action.

I would like to thank all of Sunfire's stakeholders for their continued support.

On behalf of the Board of Directors



G.C. Merritt
President & C.E.O.
May 09, 2003

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COLUMBIA
ALBERTA
BUICK CK.
Fort St.
John
Peace
River
THORHILD
Edmonton
LODGEPOLE
BRAZEAU
Red
Deer
Sunfire
Energy
Corporation
Calgary
BLACKFOOT
MAJOR PROPERTIES
Lethbridge

OPERATIONS REVIEW

PRODUCTION

Daily production volumes in 2002 increased by 2% over 2001 on a BOE/d basis. Gas volumes averaged 5.79 MMcf/d and oil production was 94 BOPD. Production at Blackfoot was suspended in July 2001 due to a lack of processing capacity at a gas plant operated by a third-party. Production resumed in March 2002 when the gas was re-routed to a different facility. Continuous production commenced at Buick Creek in October of 2002 after the installation of field compression. Average production volumes during 2002 were:

	Oil& NGL (Bbls/d)	Gas (MMcf/d)	BOED
Thorhild	-	1,986	331
Lodgepole	54	1,429	292
Blackfoot	25	1,220	228
Buick Creek	9	519	95
Other	6	638	113
TOTAL	94	5,792	1,059

DRILLING

Sunfire participated in the drilling of 13 wells of which 9 were successful resulting in a 69% success ratio. The results are as follows:

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	-	-	-	-	-	-
Gas	5.0	3.2	4.0	2.4	9.0	5.6
Dry	4.0	-	-	-	4.0	3.4
TOTAL	9.0	3.2	4.0	2.4	13.0	9.0

LAND

Sunfire's land position increased in 2002. Additional land was acquired at crown sales, freehold acquisitions and earned by farmins. The Company's land position is summarized below:

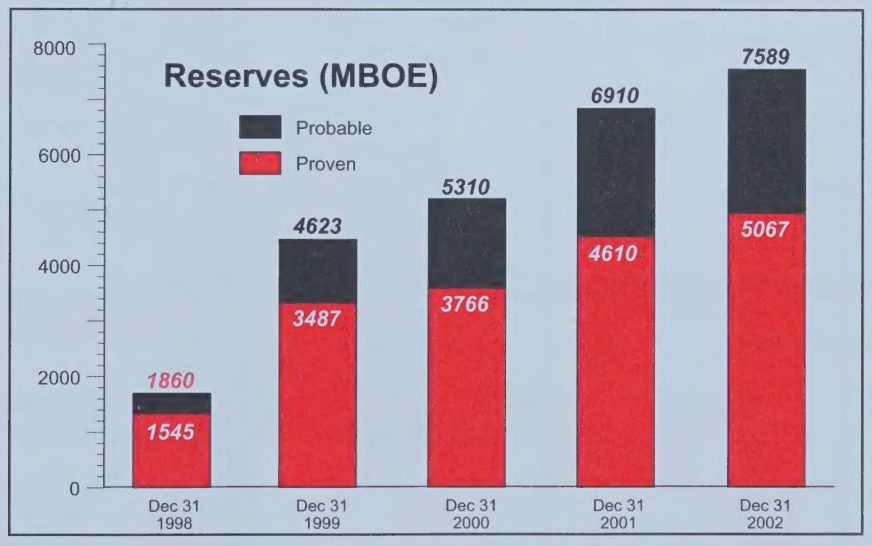
	December 31, 2002		December 31, 2001	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Producing	80,757	41,894	72,663	33,948
Non-Producing	102,478	66,948	92,959	61,263
	183,235	108,842	165,622	95,211

RESERVES

The Company's reserves were estimated at January 1, 2003, by the independent petroleum engineering firm of Martin & Brusset Associates of Calgary. The volumes and estimated present value of the Company's proved and probable reserves, as determined by Martin & Brusset, are shown in the following table. The values are forecast after the payment of operating expenses, capital costs and royalties, but prior to the payment of income taxes and indirect costs such as general and administrative expenses.

Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows

	Corporation's interest in reserves			Present worth of future net pre-tax cash flows			
				Discounted at			
	Crude Oil & NGL (Mbls)	Natural Gas (MMcf)	Bbl Equivalent (MBOE)	0%	10%	12%	15%
				(thousands of $)			
Proved							
Producing	379	20,545	3,803	65,558	41,377	38,813	35,613
Non-producing	120	6,863	1,264	21,153	10,390	9,323	8,047
Total Proved	499	27,408	5,067	86,711	51,767	48,136	43,660
Probable Additional	279	13,456	2,522	46,794	17,457	15,201	12,631
Total including ARTC	**778**	**40,864**	**7,589**	**133,505**	**69,224**	**63,337**	**56,291**
Less risking of Probable Additional @ 50%	139	6,729	1,261	23,397	8,727	7,599	6,315
ESTABLISHED RESERVES	**639**	**34,135**	**6,328**	**110,108**	**60,497**	**55,738**	**49,976**



The estimate of reserve value is based on the following price forecast prepared by Martin & Brusset:

	Gas - Alberta Spot ($CDN/MMBTU)	Oil – Edmonton Light Sweet ($CDN/Bbl)
2003	4.75	36.50
2004	4.25	32.80
2005	4.25	32.80
2006	4.34	33.00
2007	4.43	33.50

RESERVE RECONCILIATION

	Dec 31, 2001	Additions 2002	Production	Revisions	Dec 31, 2002
Proved					
Oil (MSTB)	161	(13)	(26)	155	277
Gas (Mcf)	25,221	5,650	(2,108)	(1,355)	27,408
NGL's (MSTB)	246	44	(8)	(60)	222
BOE (MBOE)	4,610	973	(385)	(131)	5,067
Probable					
Oil (MSTB)	233	(7)	-	(3)	223
Gas (Mcf)	11,929	2700	-	(1,173)	13,456
NGL's (MSTB)	80	-	-	(24)	56
BOE (MBOE)	2,301	443	-	(222)	2,522
TOTAL					
Oil (MSTB)	394	(20)	(26)	152	500
Gas (Mcf)	37,150	8,350	(2,108)	(2,528)	40,864
NGL's (MSTB)	326	44	(8)	(84)	278
BOE (MBOE)	6,911	1,416	(385)	(353)	7589

The revision to the Proved reserves are primarily due to changing the reserve estimation methodology from volumetric estimates to estimates based on performance at Buick Creek.

CAPITAL EXPENDITURES

Capital expenditures totalled $6,902,555 during the year. The expenditures were distributed as follows ($):

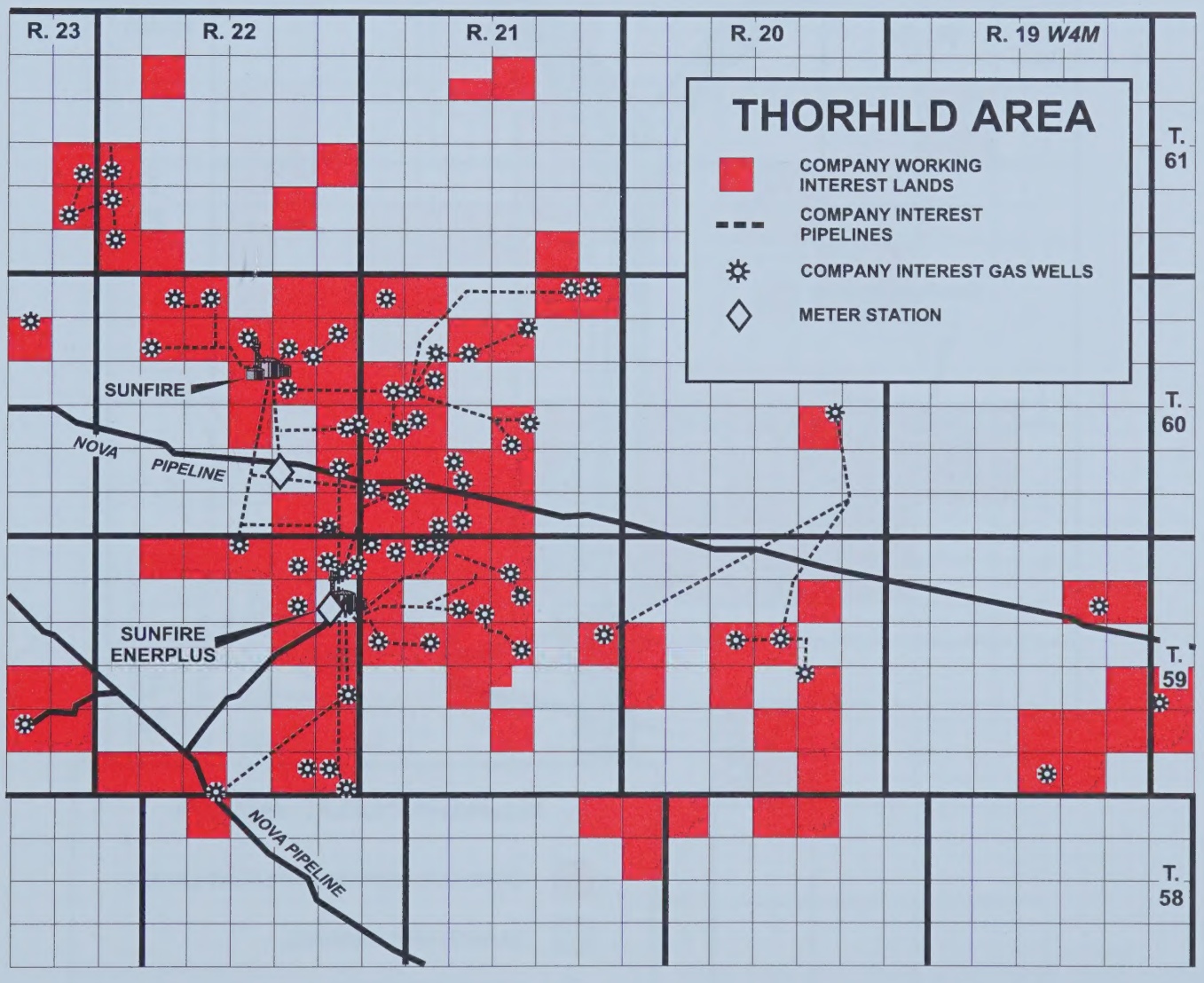
	12 mos. Ending Dec. 31, 2002	12 mos. Ending Dec. 31, 2001
Land	**947,804**	1,126,004
Seismic	**594,577**	968,108
Drilling & Completions	**3,679,256**	5,716,924
Facilities	**2,184,277**	2,338,604
Total Exploration/Development	**7,405,914**	10,149,640
Property dispositions	**(659,115)**	-
Other	**155,756**	399,320
TOTAL	**6,902,555**	10,548,960

MAJOR PROPERTIES

THORHILD, ALBERTA

Thorhild is located 45 miles North East of Edmonton. Sunfire has 50,000 net acres of land at Thorhild with an average working interest of 70%. Sweet gas is produced from several distinct geological horizons, including Wabamun, Glauconite (3), Sparky, Grand Rapids, Viking, Second White Specks and Edmonton Sand. Wells have a maximum depth of 3000 ft. Sunfire is the operator of the majority of its production and has interest in two gas plants in the area, one of which is Company operated. The Company has an extensive seismic database with 1500 km. of data in the area. More than 95% of the gas in Thorhild is sold to the spot market. Operating costs average $4.50/BOE. Sunfire receives revenue from the transportation and compression of third party gas.

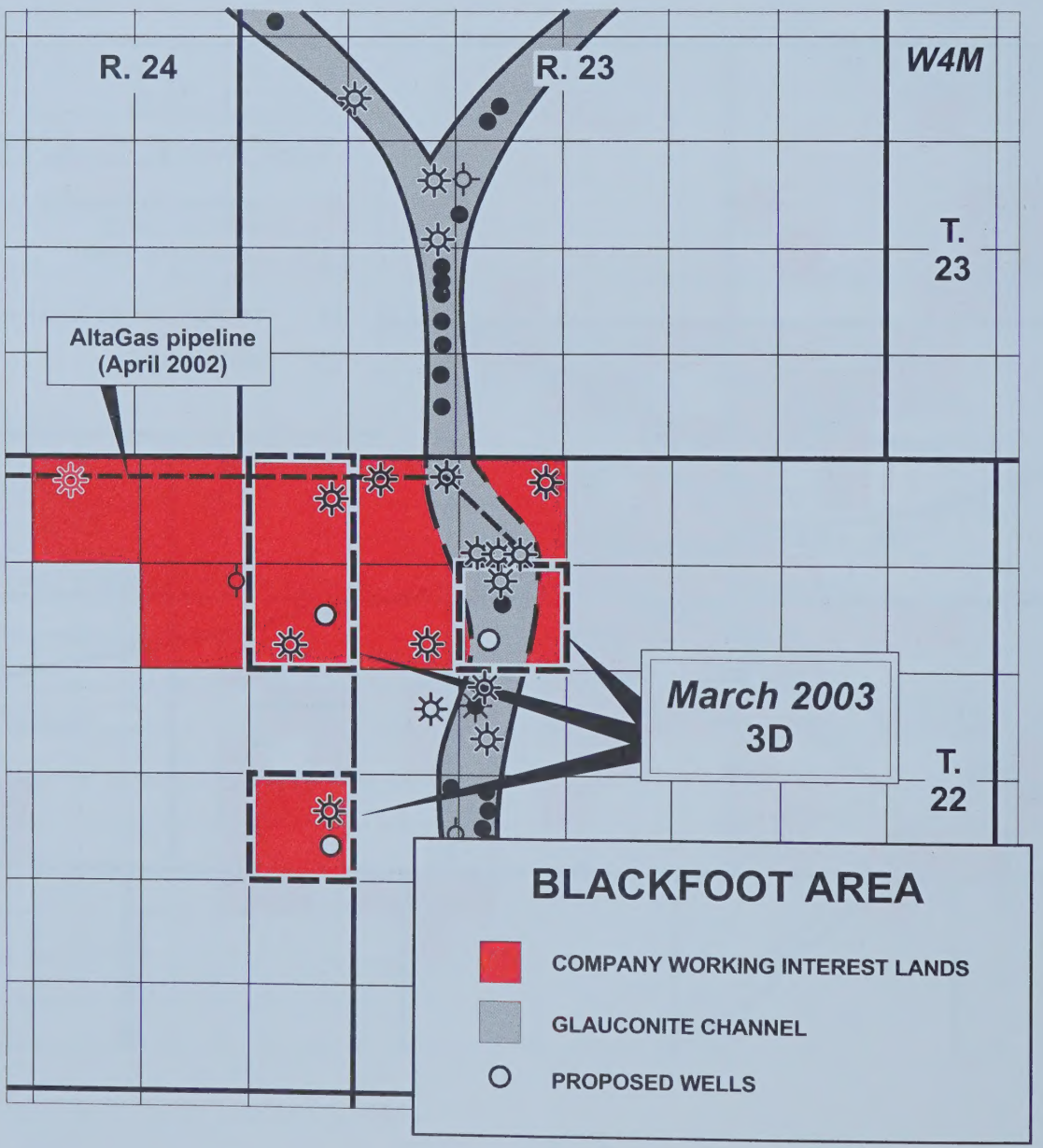
The Company drilled 7 wells in 2002, 5 of which were successful with 3 of the wells placed onstream prior to year-end. One of the wells will be tied in during Q1 2003 while the remaining well will be tied-in when further drilling in the area establishes the necessary reserves to justify the capital expenditure to tie the well in. The Company has identified 25 drilling locations on its lands. Sunfire will continue to explore and develop the property via multi-well drilling programs, recompletion and optimization projects.



BLACKFOOT, ALBERTA

Sunfire has a 37.5% interest in 2400 net acres of land 30 miles East of Calgary. Production is obtained from the Glauconite, Bow Island and Belly River zones at depths up to 5700 ft. The Company uses 3D seismic to explore and develop reserves. Gas production from this property was interrupted from July, 2001 until March, 2002 due to restrictions at a gas plant owned by a third-party. The gas was re-routed to a system where gas can be produced on a permanent basis. Gas and oil production is sold to the spot market. Operating costs average $5.45/BOE.

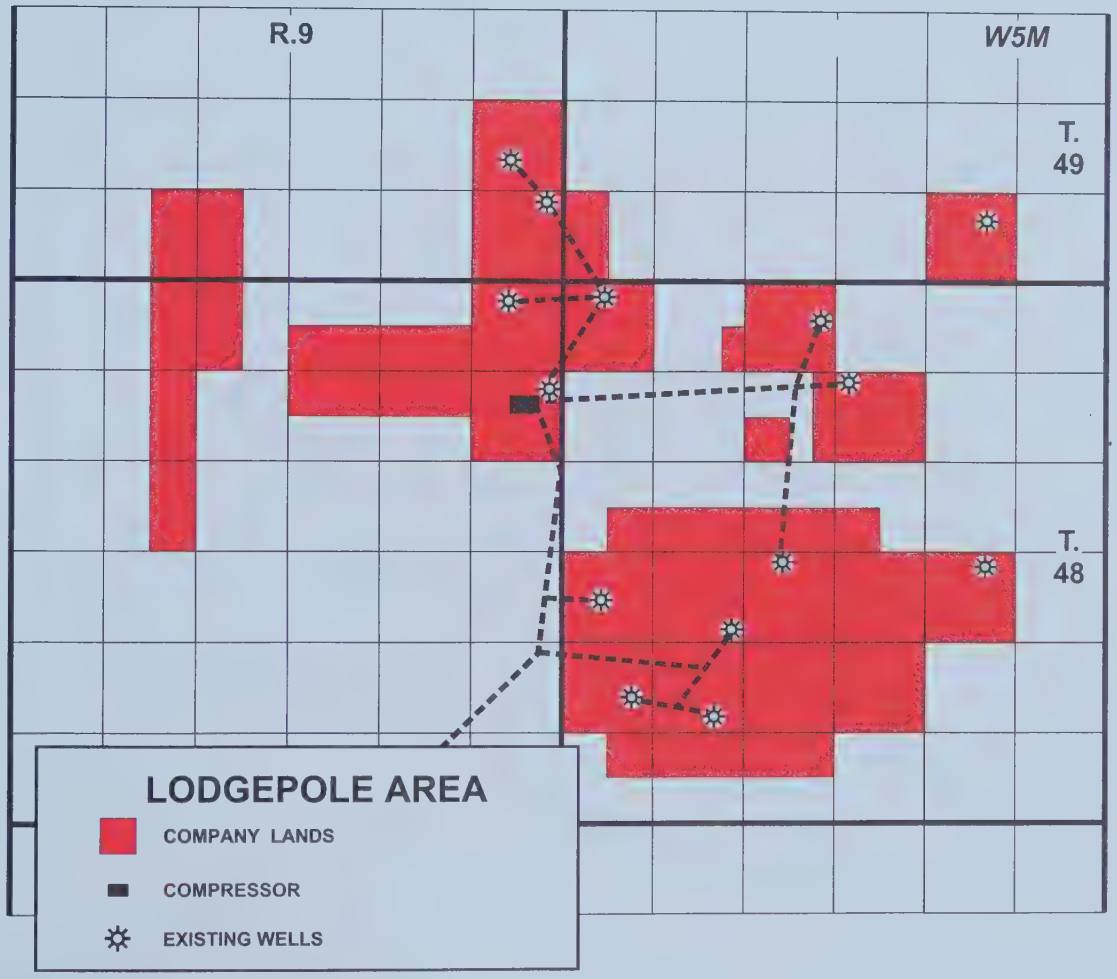
In 2002 the Company drilled 2 wells, both of which were successful. One of the wells established a new Glauconite trend which will be followed-up with development wells in 2003. The well tested at 7 MMcf/D from the Glauconite and 3 MMcf/D from the Bow Island. The Bow Island was placed onstream in January, 2003 and the Glauconite will begin production once the facilities are expanded in May, 2003. The second well tested 3.0 MM/D in the Bow Island and was placed onstream in May, 2002. A 3-D program is planned for Q1 2003 which is expected to yield several follow-up locations.



LODGEPOLE, ALBERTA

Sunfire has an average working interest of 70% in 11,000 net acres of land at Lodgepole which is located 60 miles South West of Edmonton. Sweet gas is produced from the Paskapoo and Edmonton sands within 1600 ft. of surface. Sunfire is the operator of the wells, gathering system and compressor station. The compressor delivers gas directly to the ATCO sales line and all gas from the area is sold to the spot market. The Company receives revenue from the transportation and compression of third party gas. Operating costs average $4.40/BOE. Sunfire also has a 100% interest in 5 oilwells which produce from the Cardium formation.

The Company drilled 1 successful well in 2002. The successful well is expected to be placed onstream in the second half of 2003.

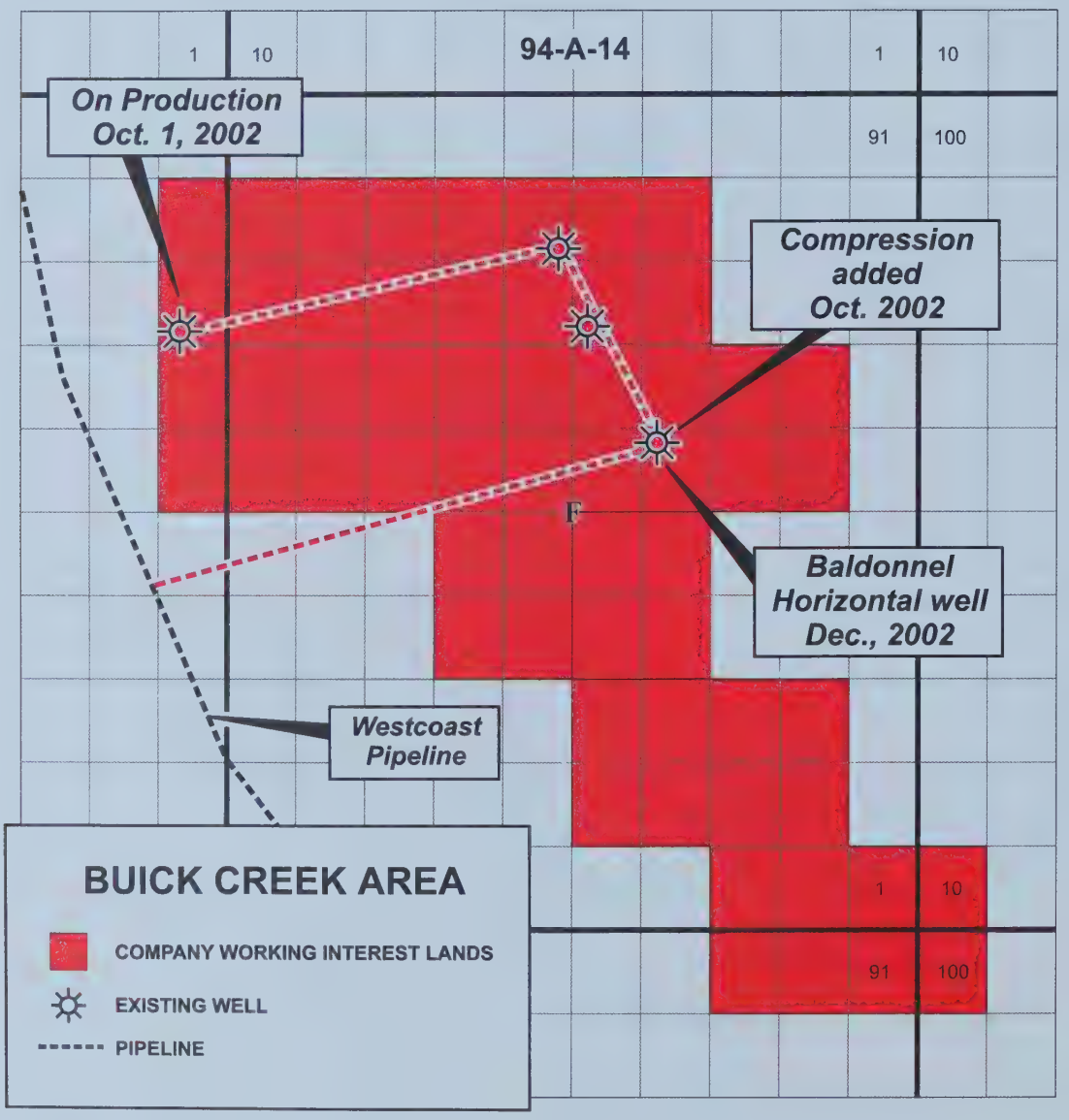


BUICK CREEK, B.C.

Sunfire has a 40% working interest in 3600 net acres of land at Buick Creek, located approximately 30 miles North of Ft. St. John, B.C. Potential geological horizons include Slave Point, Debolt, Halfway, Nancy, Baldonell and Dunlevy. Company activity at Buick Creek in 2002 included:

- tied-in d-71-E which was drilled in 2001 and completed in the Nancy zone
- drilled and completed a horizontal well in the Baldonell zone which was placed on production in January, 2003
- installed field compression in October, 2002

Sunfire owns equity in the infrastructure which ties directly into the Westcoast system. There are several follow-up locations on Company lands in the Baldonell, Halfway and Nancy zones.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") of financial conditions and results of operations should be read in conjunction with the audited consolidated financial statements and MD&A for the years ended December 31, 2002 and 2001.

OPERATIONS

Sunfire drilled a total of 13 wells (9 net) and achieved a 69% success ratio during 2002. A total of $7.4 MM was spent on the exploration/development program while $0.7MM was recovered from the sale of two minor properties and some undeveloped land. No capital was spent on acquisitions of assets from other corporations in 2002. Production volumes averaged 1059 BOE/d (91% gas) which is 2.1% higher than 2001. Average production during the fourth quarter of 2002 was up 29% (1224 BOE's per day) from the same period in 2001 (946 BOE's per day) due to increases at Blackfoot and Buick Creek.

REVENUES

Revenue before royalties decreased 9.8 % compared to last year due to average natural gas prices being 12.8% lower in 2002 ($4.26 per Mcf) than in 2001 ($4.89 per Mcf). The Company had a fixed price contract in place which increased the average gas price by $0.26/Mcf compared to the price which would have been received otherwise. Gas prices increased significantly in the fourth quarter reaching $6.00 per Mcf at year-end. Sunfire's 2002 fourth quarter revenue increased to $3.7 million from $1.7 million in the fourth quarter of 2001 as a result of the gas price and production volume increases. The price of oil and liquids averaged $36.52 per Bbl up 1.3 % from $36.06 per Bbl in 2001.

ROYALTIES

Royalties, net of the Alberta Royalty Tax Credit, decreased from $2.6 million in 2001 to $1.5 million during 2002. Royalties, as a percentage of revenue, decreased from 23% in 2001 to 15.1 % in 2002. This decrease was due to lower prices during the first half of the year and fixed price gas contracts Sunfire had in place in the second and third quarters which were higher than the prices used to calculate crown royalties.

OPERATING AND INTEREST COSTS

Average operating costs increased to $7.12 per BOE for the year ended December 31, 2002 from $5.45 per BOE for the same period in 2001. The recent production additions at Buick Creek and Blackfoot have higher unit operating costs than the remainder of the production base due to the remoteness of Buick Creek and third party processing charges incurred at both areas. Several one-time cost items also increased operating costs. The Company expects unit operating costs to be lower in 2003 than 2002. General and administrative expenses decreased 7.6% on a per BOE basis for the year ended December 31, 2002 to $1.34 per BOE from $1.45 per BOE in 2001. Interest expenses increased 2.4% to $595,313 due to higher average debt levels incurred in 2002.

DEPLETION/AMORTIZATION

Depletion and amortization expenses were essentially unchanged from the previous year. The expense increased to $3.4 million in 2002 from $3.3 million in the same period of 2001 due to Sunfire's larger asset base and similar production to proven reserves ratio's.

FUNDS FROM OPERATIONS AND NET INCOME

For the twelve months ended December 31, 2002, funds from operations decreased to $4.8 million ($0.37 per share) from $5.5 million ($0.46 per share) for the same period in 2001. The decrease was primarily caused by higher operating costs and lower average gas prices. Funds from operations in the fourth quarter increased to $1.8 million from $0.5 million in the same period in 2001. The fourth quarter increase was due to higher gas prices (71%) and volumes (29%). Net income for 2002 decreased to $0.9 million ($0.07 per share) from $1.2 million ($0.10 per share) for the same period in 2001. Net income was adversely affected by lower gas prices and higher operating costs. Net income increased in the fourth quarter of 2002 to $0.5 million from a loss of $0.2 million in the same period in 2001. In 2002, fourth quarter earnings contributed to 55% of annual earnings. Netbacks were $12.32 per BOE in 2002. The components of Funds from Operations per BOE are as follows:

	TOTAL ($)	$ per BOE
Revenue	10,246,833	26.50
Royalties (net of ARTC)	1,545,498	4.00
Operating Costs	2,753,254	7.12
General & Administrative	517,526	1.34
Interest	595,313	1.54
Large Corporation Tax	71,885	0.18
NETBACK	4,763,357	12.32

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2002, Sunfire had bank facilities with a revolving production loan of $13 million and bank debt of $11.9 million. Sunfire intends to limit exploration and development expenditures to cash flow.

FINDING AND DEVELOPMENT COSTS

Reserve additions from the capital projects were 973 MBOE of Proven and 1,194 MBOE of Established reserves (Proven + 50% of Probable). 98% of the established reserve additions were natural gas. The finding costs for the year and corresponding recycle ratios are as follows:

	F & D Cost ($/BOE)		Recycle Ratio	
	2002	2001	2002	2001
Proven	6.33	5.37	1.9	2.7
Established	5.16	4.45	2.4	3.3
After Reserve Adjustments				
Proven	7.30	8.43	1.7	1.7
Established	6.46	6.44	1.9	2.3

INCOME TAXES

The Company has adopted a new accounting standard for the recognition, measurement, presentation and disclosure of income taxes. This new standard requires the use of the liability method of tax allocation accounting, whereby the measurement of future tax assets or liabilities will be based on a balance sheet approach rather than the income statement approach under the deferral method. The provision for 2002 ($283,049) was lower than 2001 ($820,856) due to decreases in taxable income and corporate tax rates as well as an adjustment to the companies tax pools that had increased the provision in 2001. An increase in the companies capital asset base resulted in an increase in the large corporation tax to $71,885 for 2002 from $62,000 in 2001. At December 31, 2002 and January 1, 2003, Sunfire had the following tax pool balances($):

	Dec. 31, 2002	Jan. 1, 2003
CEE	6,167,090	5,615,273
CDE	2,989,669	2,092,768
COGPE	6,203,991	5,583,592
CCA	8,440,096	6,562,778
Other	105,014	61,584
TOTAL	23,905,860	19,915,995

AUDITED FINANCIAL STATEMENTS
December 31, 2002

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying financial statements are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada.

Management acknowledges responsibility for the integrity of the financial statements and all other financial information in this annual report. Where appropriate, management has made informed judgments and estimates in accounting for transactions which affect the current accounting period but cannot be finalized with certainty until future periods. Company policies and procedures have been implemented to reasonably ensure that transactions are appropriately authorized, assets are safeguarded from loss and financial records are maintained. To further minimize risk, management maintains adequate systems of internal control.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and has appointed an Audit Committee. This committee, consisting of a majority of non-management directors, meets with management and external auditors to ensure that each group is properly discharging its responsibilities and to discuss internal control, accounting policies and financial reporting matters. The Audit Committee has reviewed the financial statements and has reported thereon to the Board of Directors. The Board of Directors has approved the financial statements for issuance to the Shareholders.

G.C. Merritt
President

P.W. Goodman
Secretary Treasurer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Sunfire Energy Corporation as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 24, 2003

SUNFIRE ENERGY CORPORATION

Consolidated Balance Sheets

December 31, 2002 and 2001

	2002	2001
Assets		
Current assets		
Cash	$ 8,745	$ 50,856
Accounts receivable	2,098,754	982,759
Prepaid expenses	131,308	204,541
	2,238,807	1,238,156
Petroleum and natural gas properties (note 2)	43,480,833	40,109,237
	$ 45,719,640	$ 41,347,393
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,752,262	$ 2,330,751
Large corporation tax payable	4,724	26,547
Current portion of obligations under capital lease (note 4)	353,919	457,355
	4,110,905	2,814,653
Long-term debt (note 3)	11,932,384	9,752,368
Obligations under capital lease (note 4)	654,327	1,008,247
Provision for future site restoration	235,367	198,749
Future income taxes (note 6)	9,231,434	8,948,385
Shareholders' equity		
Share capital (note 5)	12,175,731	12,158,230
Retained earnings	7,379,492	6,466,761
	19,555,223	18,624,991
	$ 45,719,640	$ 41,347,393

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Geoffrey Merritt, Director

Douglas Mitchell, Chairman

SUNFIRE ENERGY CORPORATION

Consolidated Statements of Income and Retained Earnings

Years ended December 31, 2002 and 2001

	2002	2001
Revenues		
Petroleum and natural gas sales	$ 10,246,833	$ 11,359,187
Royalties, net of Alberta Royalty Tax Credit	(1,545,498)	(2,596,719)
	8,701,335	8,762,468
Expenses		
Production	2,753,254	2,062,522
General and administrative	517,526	548,422
Interest on long-term debt	595,313	581,405
Depletion and depreciation	3,398,692	3,285,402
Site restoration	168,885	167,706
	7,433,670	6,645,457
Income before income taxes	1,267,665	2,117,011
Provision for taxes		
Future income taxes (note 6)	283,049	820,856
Large corporation tax	71,885	62,000
	354,934	882,856
Net income	912,731	1,234,155
Retained earnings, beginning of year	6,466,761	5,337,606
Repurchase of common shares (note 5(b))	-	(105,000)
Retained earnings, end of year	$ 7,379,492	$ 6,466,761
Net income per share		
Basic	$ 0.07	$ 0.10
Diluted	$ 0.07	$ 0.10

See accompanying notes to consolidated financial statements.

SUNFIRE ENERGY CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash provided by (used for):		
Operations		
Net income	$ 912,731	$ 1,234,155
Adjustments to operations not requiring cash outlays		
Depletion and depreciation	3,398,692	3,285,402
Future income taxes	283,049	820,856
Site restoration provision	168,885	167,706
Funds from operations	4,763,357	5,508,119
Change in operating non-cash working capital	(507,971)	2,323,588
	4,255,386	7,831,707
Financing		
Common shares issued	17,501	2,029,000
Common shares repurchased	-	(175,594)
Increase in long-term debt	2,180,016	4,107,428
Principal repayment of capital lease obligation	(457,356)	(446,851)
	1,740,161	5,513,983
Investing		
Petroleum and natural gas property expenditures	(7,429,403)	(10,294,794)
Proceeds on sale of petroleum and natural gas properties	659,115	-
Site restoration costs	(132,267)	(254,166)
Total expenditures	(6,902,555)	(10,548,960)
Change in investing non-cash working capital	864,897	(2,755,015)
	(6,037,658)	(13,303,975)
Increase (decrease) in cash	(42,111)	41,715
Cash, beginning of year	50,856	9,141
Cash, end of year	$ 8,745	$ 50,856
Funds from operations per share:		
Basic	$ 0.37	$ 0.46
Diluted	$ 0.36	$ 0.44

During 2002, the Corporation paid $443,951 (2001 - $580,705) of interest on long-term debt and large corporation taxes of $67,161 (2001 - $35,453).

See accompanying notes to consolidated financial statements.

SUNFIRE ENERGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

The Company is engaged in the exploration for and production of petroleum and natural gas in Western Canada.

1. Significant accounting policies:

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant policies summarized below:

(a) Petroleum and natural gas properties:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisitions, cost of drilling both productive and non-productive wells, related plant and production equipment and geological and geophysical expenses and overhead directly related to these activities.

Capitalized costs together with future estimated capital costs associated with proven reserves, excluding costs relating to unproven properties, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. For purposes of the depletion and depreciation calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content.

The costs of acquiring and evaluating unproven properties are excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to costs subject to depletion.

The Company applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues for the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year end prices and include an allowance for estimated future general and administrative expenses, site restoration, financing costs and income taxes.

Proceeds from the sale of petroleum and natural gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

1. Significant accounting policies (continued):

(b) Interest in joint ventures:

Substantially all of the Company's petroleum and natural gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(c) Future site restoration and abandonment costs:

Estimated site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's independent engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(d) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only dilutive instruments, where the market price exceeds the issue price, impact the diluted calculations. In computing diluted net income and cash flow from operations per share, 327,739 net shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2002 (2001 – 380,533) for dilutive effect of employee stock options. A total of 225,000 (2001 – 390,000) options were excluded from the diluted calculations, as they are not dilutive.

(e) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Share capital is reduced and a future income tax liability is recorded for the estimated cost of the renounced tax deductions when the shares are issued.

(f) Financial instruments:

The Company periodically may use swaps or other financial instruments to manage exposure related to the fluctuation of petroleum and natural gas prices. Gains or losses arising from these swap arrangements are recorded to the related revenue account. Financial instruments are not used for speculative purposes.

SUNFIRE ENERGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(g) Stock based compensation plans:

The Company has a stock option plan which is described in note 5(d). Effective January 1, 2002 the Company adopted the new recommendation of the CICA with respect to the accounting for stock based compensation. In accordance with the new standard, the Company elected to continue its policy that no compensation is recorded on the grant of employee stock options and consideration paid on the exercise of such options is recorded as share capital. In addition, the new standard requires a fair value based method of accounting for other stock based payments. Had compensation cost for the Company's stock based compensation been determined based on fair value, assuming a risk-free interest rate of 3.4% and an expected volatility rate of 78%, at the grant dates after January 1, 2002 the Company's after tax net income would have been reduced by $28,000 for the year ended December 31, 2002. The income per share amount would not have changed.

(h) Income taxes:

The Company follows the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense or benefit is the sum of the Company's provision for current income taxes and difference between the opening and ending balances of the future income tax assets and liabilities.

2. Petroleum and natural gas properties:

	2002	2001
Petroleum and natural gas properties	$ 56,870,520	$ 50,100,233
Accumulated depletion and depreciation	(13,389,687)	(9,990,996)
Net book value	$ 43,480,833	$ 40,109,237

At December 31, 2002, the net book value of equipment under capital lease included in petroleum and natural gas properties was $1,835,043 (2001 - $1,994,872).

At December 31, 2002, undeveloped properties with a cost of approximately $1,901,000 (2001 - $1,648,000) included in petroleum and natural gas properties have not been subject to depletion.

At December 31, 2002, the estimated future site restoration costs to be accrued over the remaining proved reserves were approximately $1,464,000 (2001 - $1,503,000).

3. Long-term debt:

The Company has a revolving term credit facility available up to $13 million with a Canadian Chartered Bank. The facility is available on a revolving basis until May 31, 2003 and carries an interest rate equal to the bank's prime rate. On May 31, 2003, at the Company's discretion, the facility is available on a non-revolving basis for a 366 day term until June 2, 2004, at which time the facility would be due and payable. Alternatively the facility may be extended for a further 364 day period at the request of the Company and subject to approval by the bank. In addition, the Company has access to a $2 million U.S. dollar swap facility, none of which was being used at December 31, 2002. The credit facility is secured by a $25 million first floating charge debenture.

SUNFIRE ENERGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

4. Obligations under capital lease:

Future lease commitments relating to the 2000 acquisition of compressors, excluding interest at 8.125%, payable by the Company are as follows:

2003	$ 353,919
2004	654,327
Total lease payments	1,008,246
Current portion of obligation under capital lease	353,919
	$ 654,327

At December 31, 2002, interest of $ 101,396 (2001 - $ 138,874) relating to capital lease obligations has been included in interest on long-term debt expense.

5. Share capital:

(a) Authorized:

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares
Unlimited number of Class C, D and E preferred shares

(b) Issued:

Class A common shares	Number of shares	Amount
Balance, December 31, 2000	12,066,573	$ 11,051,398
Issuance of shares on exercise of stock options	30,000	30,000
Issuance of flow-through common shares	1,000,000	2,000,000
Tax effect on flow-through common shares	-	(852,000)
Repurchase of shares	(76,300)	(70,594)
Share issue costs (net of tax effect of $426)	-	(574)
Balance, December 31, 2001	13,020,273	12,158,230
Issuance of shares on exercise of stock options	25,000	17,501
Balance, December 31, 2002	13,045,273	$ 12,175,731

SUNFIRE ENERGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

5. Share capital (continued):

During 2001, pursuant to a normal course issuer bid, the Company purchased 76,300 of its issued and outstanding common shares for a total cost of $175,594. The excess of the cost over the assigned value of the shares of $105,000 was allocated to retained earnings.

(c) Flow-through shares:

On December 13, 2001, the Company completed a private placement of 1,000,000 flow-through Class A common shares at $2.00 per share. Share capital was reduced and future income taxes were increased by the estimated amount of the tax benefits renounced. Under the terms of the private placement, $2 million was expended on qualifying exploration activities.

(d) Stock options:

The Company has granted 1,295,000 stock options to purchase common shares of the Company to it's directors and employees under incentive stock option agreements. The Company currently limits stock options to not more then 10% of it's outstanding class A common shares. Options are granted for a five year period and vest in equal annual amounts over a three year period. The following table summarizes the changes in the Company's stock option plan during the reporting period:

	2002		2001	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	1,125,000	$ 1.45	900,000	$ 1.15
Granted	195,000	1.75	255,000	2.45
Exercised	(25,000)	0.70	(30,000)	1.00
Stock options outstanding, end of year	1,295,000	$ 1.51	1,125,000	$ 1.45
Stock options exercisable, end of year	893,327	$ 1.28	796,666	$ 1.13

SUNFIRE ENERGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

5. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2002:

	Total options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$ 0.70 – 1.10	420,000	0.7	$ 0.93	420,000	$ 0.93
1.20 – 1.50	390,000	2.2	1.36	356,666	1.36
1.75 – 2.05	230,000	4.2	1.78	31,666	1.93
2.20 – 2.50	255,000	3.5	2.45	84,995	2.45
$ 0.70 – 2.50	1,295,000	2.3	$ 1.51	893,327	$ 1.28

6. Income taxes:

(a) The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 42.1% to income before income taxes. The difference relates to the following items:

	2002	2001
Income tax rate	42.1%	42.6%
Expected income tax provision	$ 533,687	$ 901,847
Non-deductible crown charges	383,923	914,083
Alberta Royalty Tax Credit	(58,601)	(193,899)
Resource allowance	(516,295)	(740,487)
Effect of change in tax rate	(94,417)	(325,627)
Effect of tax reassessment	42,699	272,523
Other	(7,947)	(7,584)
Future income taxes	$ 283,049	$ 820,856

SUNFIRE ENERGY CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

6. Income taxes (continued):

The components of the future income tax liability at December 31, 2002 are as follows:

	2002	2001
Future income tax assets:		
Share issue costs and other tax assets	$ 25,958	$ 38,826
Future site restoration	74,406	63,500
	100,364	102,326
Future income tax liabilities:		
Petroleum and natural gas properties	9,331,798	9,050,711
Net future income tax liability	$ 9,231,434	$ 8,948,385

(b) At December 31, 2002, the Company has approximately $20 million of resource and other unused income tax pools available for deduction against future taxable income.

7. Financial instruments:

(a) Credit risk:

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Purchasers of the Company's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(b) Commodity risk:

The Company seeks to reduce its exposure to commodity price risk in its business through the use of physical product arrangements, futures, options and swaps. At year end the Company had entered into the following arrangement for natural gas.

Contract	Volume	Pricing Point	Price	Term
Fixed price swap	2.8 MMcf/D	AECO	$5.40/Mcf	Nov. 1/02-Mar. 31/03

At December 31, 2002, the estimated fair value of the swap is a loss of approximately $248,000.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to the short-term maturity. The long-term debt carrying value approximates fair value due to the cost of such borrowing being at a floating rate.

NOTES

CORPORATE INFORMATION

DIRECTORS

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President of the Corporation

Roderick Campbell *(1,3)*
Nanoose Bay, British Columbia
Business Consultant

Douglas H. Mitchell (Chairman) *(2,3)*
Calgary, Alberta
Co-Chairman and Managing Partner
of Borden Ladner Gervais LLP

William R. Stedman *(1,2)*
Calgary, Alberta
Chairman and CEO
of ENTX Capital Corporation

James M. Stanford *(3)*
Calgary, Alberta
President of Stanford Resource Management

Nancy Smith *(1)*
Calgary, Alberta
Senior Vice President of Finance and
Administration of ARC Financial Corporation

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

AUDITORS

KPMG LLP
Calgary, Alberta

EVALUATION ENGINEERS

Martin & Brusset Associates
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol SFE.A

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